



**Director of
Central
Intelligence**

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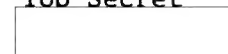
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ISRAEL: West Bank Demonstrations

Violent protests continued over the weekend throughout the Israeli-occupied West Bank.

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Strikes and demonstrations on Saturday protesting the dismissal of a municipal council last week took place in most major towns. The Israelis moved quickly to calm the situation, but security services imposed curfews on three towns where the worst demonstrations occurred and banned residents there from crossing bridges into Jordan. Sporadic demonstrations continued yesterday in addition to incidents in East Jerusalem and Gaza.

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Comment: The death of an Arab protester on Saturday probably will generate more violence. In addition, an Israeli official told journalists that a Palestinian whose body was discovered that day had probably been murdered by Jewish settlers. Once this incident becomes widely known, it could lead to revenge attacks on settlers, further aggravating the situation.

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The growing violence has increased popular pressure on other area mayors to resign in sympathy with the ousted council. Most mayors, however, believe their resignations now would only serve Israeli interests and are planning to stay in office.

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POLAND: Continued Stalemate Predicted

//A senior party official believes that there will be little significant political activity in the next several months.//

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//A Central Committee department head, in a discussion last week with a US Embassy official, commented that the government, the Church, and Solidarity are stalling for time and that little political movement could be expected until late spring. He said the regime had not yet decided on whether or how to begin a dialogue with Solidarity and predicted that Premier Jaruzelski would open talks only if he were reasonably certain of a favorable outcome.//

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//The official indicated that the Church prefers to wait and see whether there will be an upsurge of resistance this spring. Government officials who have talked with Solidarity chief Walesa say that he believes time is on his side.//

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Comment: //The stalemate could last beyond spring, depending primarily on the level of open resistance in the coming months. There have been almost no indications that Solidarity is planning a major confrontation with the regime in the next few months, although the possibility of scattered outbursts remains high.//

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//If the widely anticipated resistance does not materialize, the moderates in the government will have a better chance of maintaining their influence, but they will not be able to defeat the hardliners totally. An impasse between moderates and hardliners in the regime would preclude any far-ranging political or economic moves that would break the current stalemate.//

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EGYPT: Effects of Soft Oil Market

Falling oil prices are cutting into government revenues and increasing foreign payments problems, but Cairo fears such remedies as reducing imports and limiting government spending would be politically risky. [redacted]

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The decline in oil prices during 1981 resulted in lower earnings than expected, and the current account deficit jumped from \$455 million in 1980 to an estimated \$1.5 billion last year. Egypt's deficit in 1982 is likely to reach \$2 billion even if oil prices remain at present levels. Gulf of Suez blend currently is priced at \$31.50 per barrel, down from a high of \$40.50 in early 1981. [redacted]

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Falling oil revenues also are hurting the budget, which was already in trouble because of subsidy spending and government pay raises. IMF officials believe the budget deficit could double this year. [redacted]

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Comment: Cairo will have difficulty obtaining additional economic assistance from Western donors but apparently believes that it can secure commercial loans to cover its foreign payments deficit. Before much longer Egypt also will have to consider ways to increase exports and limit government spending and imports. [redacted]

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Possible alternatives include raising domestic energy prices, reducing government subsidies for food and other consumer items, limiting investment spending, and reducing military expenditures, but each risks provoking serious unrest. The government, therefore, is likely to wait as long as possible and then take only minimal action. [redacted]

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Egypt's economic difficulties will increase the incentive to seek a rapprochement with wealthy Arab states after the Israeli withdrawal from the Sinai in April. Many Egyptians expect some reconciliation this summer and hope for renewed economic aid. [redacted]

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MADAGASCAR-US: Request for Assistance

Supported by France, Madagascar is urging the US to help persuade the IMF to ease its conditions for a standby agreement. President Ratsiraka fears that acceptance of the IMF conditions, especially a 25-percent devaluation, would provoke an uprising that could topple him. His fears were heightened by violent protests early this month in Diego Suarez and other northern towns over food shortages, which have been aggravated by extensive cyclone and flood damage. [REDACTED]

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Comment: Failure of the IMF and Madagascar to reach an agreement could jeopardize attempts by France and other Western countries to wean Madagascar away from Soviet influence. Despite his leftist ideology, Ratsiraka apparently has concluded that additional Western aid--expected to follow an IMF loan--is crucial to his survival, and he recently has tried to improve ties with the West. Last week, he permitted a US admiral to visit the port and airfield at Diego Suarez in order to emphasize that Soviet naval ships and aircraft still are not welcome, despite the USSR's pressure for access. [REDACTED]

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FRANCE: Cantonal Election Results

//President Mitterrand's Socialists improved their share of the vote to 35.4 percent in the runoff round of the cantonal elections yesterday. The Communists' share of the vote fell to a new low of 13 percent. Consequently, the left was unable to overcome the built-in advantage for the center-right, which now will control an even larger majority of the presidencies of the departmental councils.//

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OPEC: Oil Output Decision

As the result of a lower ceiling and an extra Saudi output reduction, OPEC oil production will be 1 million b/d less than we anticipated prior to the Vienna meeting.

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Comment: The lower output will not entirely eliminate the surplus of oil on the market. It should tend, however, to stabilize prices and support the \$34 benchmark if all members, including Iran, adhere to the agreement.

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SPECIAL ANALYSIS

GUATEMALA: Prospects for the Guevara Administration

President-elect Guevara will face tough political and economic problems when he takes office in July. The expectation that Guevara will continue some of the corrupt and repressive practices of preceding military regimes will hinder his ability to attract domestic and international support. The rapid deterioration of the economy probably will require cutbacks in social programs, hamper the Army's counterinsurgency efforts, and facilitate guerrilla recruiting efforts. Over the long term, the prevailing political and economic conditions favor the leftist insurgents.

Charges of fraud by a short-lived postelection coalition of opposition parties have tarnished Guevara's electoral plurality and subsequent selection as President by congress. Although Guevara is less rigidly right-wing than President Lucas, there is no indication that his government will differ markedly from the military regimes of past years. Some corrupt officials probably will keep their posts, and Guevara is not apt to press for significant reforms or make policy concessions to center-left groups like the Christian Democrats.

Guevara apparently intends to name a handful of opposition leaders to public office to give the impression that he has achieved national reconciliation. He appears unlikely, however, to adopt other measures necessary to avoid increasing political polarization. The government probably will continue to deal harshly with most leftist opponents and remain unaccommodating toward political moderates.

Many Christian Democrats will maintain the role of a nonviolent political opposition. Others, fearing government reprisals over their challenge of the election results, may leave the country, participate in the organization of prominent exiles recently formed in Mexico City, or join the guerrillas.

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Guatemala's poor international image--reflected in the recent condemnatory resolution by the UN Commission on Human Rights--is unlikely to improve. Mexico, Venezuela, and several West European countries are concerned over the charges of electoral fraud and will await clear evidence that Guevara's administration is an improvement over its predecessor before strengthening ties. [redacted]

Guevara appears likely to inherit the vexing problem of Guatemala's longstanding claim to Belize, which appears no closer to settlement. The departure soon of British troops and recent Cuban efforts to establish a commercial presence in Belize make a prompt settlement vital to both parties. Nevertheless, Belize's reluctance to grant Guatemala a long-term lease on several offshore cays almost guarantees that the Guatemalan military will not permit the government to renounce its territorial claim. [redacted]

Economic Constraints

Guatemala's short-term economic prospects are bleak. Regional uncertainties and the growing domestic insurgency have caused commercial credit to dry up, reduced investor confidence, and encouraged capital flight. Export revenues have plummeted because of low world prices for agricultural products, a sharp drop in tourism, and depressed demand by the Central American Common Market for Guatemalan manufactures. [redacted]

Over the past year, foreign loans and investment have fallen off, and the regime has virtually exhausted its hard currency reserves in an attempt to maintain imports. Declining government revenues from export taxes will require severe spending cuts to comply with IMF guidelines to lower the budget deficit. Income from oil exports offers no short-term remedy, because production rose by less than 1 percent last year. [redacted]

Higher military expenditures will further strain the budget and probably require cutbacks in social programs. Rising unemployment and the curtailment of social services, however, are likely to increase public discontent and benefit the insurgents. [redacted]

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The Guerrilla Challenge

//The insurgency has increased substantially since 1979. The guerrillas have expanded operations in several fronts, relying mostly on terrorist killings and bombings, economic sabotage, and ambushes of security forces. [REDACTED]

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The insurgents' increasing strength is in part due to successful recruiting among the Indian population. Portions of the Western Highlands, inhabited primarily by Indians, are almost wholly controlled by the insurgents. [REDACTED]

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A new agreement among the four major guerrilla groups, which was announced in Cuba in early February, has led to greater cooperation in Guatemala. As a result, Havana probably will send the insurgents more weapons, which are smuggled mainly through Mexico and Honduras. [REDACTED]

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Recently adopted mobile counterinsurgency tactics have enabled the Army to sweep through guerrilla territory, destroy base camps, and dismantle support facilities. An amnesty program has induced some insurgents to surrender, and growing numbers of peasants apparently are collaborating with the Army. [REDACTED]

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In the capital, authorities last year uncovered more than 25 safehouses, dealing a severe blow to the urban infrastructure of the second-largest guerrilla organization. More recently, Army roadblocks hindered leftist efforts to deliver arms and disrupt the election. [REDACTED]

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Troop mobility remains inadequate, however, and coordination between air and ground forces is haphazard. In addition, the Army will continue to have difficulty in obtaining and paying for spare parts and new equipment. [REDACTED]

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Outlook

Guevara's major accomplishment probably will be continuing to hold the guerrillas at bay for the next few years. The controversy surrounding his election, however, will heighten political tension and contribute to the country's international isolation. [REDACTED]

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An economic upturn is highly unlikely. With Guevara at the helm, the government will be hard pressed to remedy the problems that will contribute to greater violence and a stronger insurgency. [REDACTED]

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